

# SPOTLIGHT

## on Inclusive Business

### Approaches companies use to track their social impact:

#### A comparison of four options

Pity the poor executives tasked with enabling a company to understand its contribution to development. They are faced with an array of different approaches, with little information on how or when each one might be used. This short note aims to offer some clarity on what can be used and why.

**Anglo American conducts an assessment at every mining site, every three years, to assess impacts and stakeholder priorities. It uses its Socio Economic Assessment Toolbox (SEAT), with a host of tools for understanding how local livelihoods are affected by their mining operations.**

**Value chain maps have been done in many tourism destinations, tracking how low-income people are involved. At one all-inclusive hotel, a first mapping identified recommendations for action and a second measured the increase in local benefits after six months of action – a 16 per cent gain.**

**Inclusive Business Spotlights** shed light on specific topics concerned with the development of inclusive business. They are generated from the project and advisory work of the Business Innovation Facility.

Companies that assess the impacts of their business on development may be pursuing two somewhat different aims; to prove or demonstrate the social contribution of their business to other stakeholders (e.g. communities, governments and investors); or to improve their contribution by identifying areas for action that have a high potential for development impact.

There are many different approaches that companies could use – and they all have different strengths and constraints. In order to offer some clarity on this subject we have broadly categorised the approaches into four. The tables below outline their strengths, constraints and where they might usefully be applied.

Approach	Local Livelihood Assessment
Purpose	Assess the local level impacts of a project or plant on local communities
Strengths	<ul style="list-style-type: none"> <li>- Assesses both financial and social impacts, combining quantitative and qualitative results</li> <li>- Explains “why” as well as “what”</li> <li>- Builds in views from the people ‘on the ground’</li> <li>- Can be designed to allow some data aggregation and comparison at a higher level and over time</li> <li>- Not complicated – tools are already available</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>- Usually weak on aggregation, bench-marking or comparison</li> <li>- Isolated from the wider context</li> <li>- Limited to a specific site</li> <li>- Requires field work on site</li> </ul>
Useful for...	<ul style="list-style-type: none"> <li>- ‘Improving’ decisions locally</li> <li>- ‘Proving’ impact via data and stories</li> </ul>

Approach	Poverty Footprint/ Value Chain Mapping
Purpose	Identify where a business or sector impinges on poverty and development, quantify impacts and prioritise action
Strengths	<ul style="list-style-type: none"> <li>- Detailed data and views can be structured into a meaningful ‘big picture’</li> <li>- Combines aggregated and disaggregated data, on both financial and social issues</li> <li>- Analyses core business and value chains and relates core business interests to those of the people at the base of the economic pyramid</li> <li>- Usually goes beyond description to identify areas for change and action</li> <li>- Can be repeated to measure change over time</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>- Ambitious</li> <li>- Requires a lot of information – from stakeholders, suppliers, plus internal corporate information</li> <li>- Requires strong analysis</li> </ul>
Useful for...	<ul style="list-style-type: none"> <li>- ‘Improving’ at a local and strategic level</li> <li>- Providing a ‘big picture’ which demonstrates total impact</li> <li>- Encouraging lateral thinking</li> </ul>

Approach	Economic Contribution
Purpose	Identify total economic impact including multipliers
Strengths	<ul style="list-style-type: none"> <li>- Provides 'hard' (persuasive ) data, beyond anecdotes</li> <li>- Provides the 'big picture' in the national context</li> <li>- Encompasses all aspects of business operations</li> <li>- The approach is scalable and replicable and the findings are comparable</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>- Provides little information on stakeholder views and other poverty impacts</li> <li>- Describes 'what' rather than explains 'why'</li> <li>- Focuses less on where and how to create change</li> </ul>
Useful for...	<ul style="list-style-type: none"> <li>- Providing data in a way that is more compelling and relevant to Ministries of Finance</li> <li>- Understanding the 'big picture' impact, as context for more focused action</li> </ul>

Several multinationals, from banking to breweries, have commissioned assessments of their economic contribution. Given their size and the multiplier effects, reports show their contribution can be measured as percentages of GDP or national employment.

Approach	Tracking Indicators
Purpose	Repeated monitoring of key indicators of socio-economic impact
Strengths	<ul style="list-style-type: none"> <li>- Data is likely to be internalised and used by the company</li> <li>- Identifies change over time, progress or problems</li> <li>- Simplifies complexity into a few key variables such as volume, prices and payments</li> <li>- Easily combines commercial, social and environmental metrics</li> <li>- Data can be used to create information with a more visual impact such as scorecards and/or graphics</li> <li>- Aggregation and comparisons across businesses are possible for some metrics</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>- Describes 'what' rather than explains 'why'</li> <li>- Reduces complex impacts to a few measures: value depends on the choice of indicator</li> <li>- May rely on partners/suppliers for key social metrics</li> <li>- Risk of using standardised Impact Reporting and Investment Standards (IRIS) indicators to satisfy investors, rather than tailored measures for internal management</li> </ul>
Useful for...	<ul style="list-style-type: none"> <li>- Tracking achievement of combined social and commercial mission</li> <li>- Informing and improving the management of supply chain and customer base</li> <li>- Reporting to impact investors</li> </ul>

Several inclusive businesses supported by the Business Innovation Facility are incorporating social metrics with their typical commercial Key Performance Indicators (KPIs). Indicators such as numbers and earnings of farmers or low-income people help measure achievement of social mission, while indicators covering areas planted or people trained indicate ongoing social sustainability.

While generalisations are risky, they can also help: the first approach (local assessment) is particularly suited to any location-specific plant or site; the second approach (value chain map) can be readily adapted for a single plant, entire value chain, or economic sector; the third approach (modelling economic contribution) tends to be relevant to multinationals with impact measurable at scale; the fourth approach (Key Performance Indicators) is central to any business which combines a social purpose with commercial goals, so is common amongst social enterprises but is gaining momentum amongst other businesses that are recognising the need to track social performance.

Each approach has potential and is useful in different ways – either for assessing where to focus to boost business impact, or to demonstrate to others that the company does have substantive impact. The 'others' may be governments and host communities, but they may also be other departments or the board. They all, of course, also have their weaknesses. If the wrong thing is measured, key people are not heard, or areas of weakness are ignored, any method falls short.

A more detailed explanation of these four approaches is covered in a 2009 paper, *Approaches to assessing business impacts on development*, and a presentation on how these approaches are being used currently, are available here <http://businessinnovationfacility.org/forum/topics/understanding-and-enhancing-business-impact-on-development-approa>. To follow ongoing discussion on this topic, join the Impacts Network on the Practitioner Hub.

➔ **For further information on impact measurement, go to:**  
Practitioner Hub on Inclusive Business: [www.businessinnovationfacility.org](http://www.businessinnovationfacility.org)

Join the Inclusive Business Impacts Network: <http://businessinnovationfacility.org/group/inclusive-business-impacts-network>  
and visit the Know-How pages on Inclusive Business results: <http://businessinnovationfacility.org/page/know-how-inclusive-business-results>

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